

VZCZCXRO8602
RR RUEHCHI RUEHDT RUEHNNH
DE RUEHHM #0575/01 2221039
ZNR UUUUU ZZH
R 101039Z AUG 09
FM AMCONSUL HO CHI MINH CITY
TO RUEHC/SECSTATE WASHDC 5986
INFO RUEHHI/AMEMBASSY HANOI 3887
RUEHBJ/AMEMBASSY BEIJING 0059
RUCNASE/ASEAN MEMBER COLLECTIVE
RUEHHM/AMCONSUL HO CHI MINH CITY 6222

UNCLAS SECTION 01 OF 05 HO CHI MINH CITY 000575

SENSITIVE
SIPDIS

DEPT FOR EAP/MLS AND EEB

E.O. 12958: N/A

TAGS: [EMIN](#) [SENV](#) [ECON](#) [PREL](#) [EINV](#) [VM](#)

SUBJECT: DEEPER DIGGING INTO VIETNAM'S BAUXITE DEBATE UNCOVERS AS
MANY NEW QUESTIONS AS ANSWERS

REF: A) Hanoi 417 B) Hanoi 537 C) Hanoi 413

HO CHI MIN 00000575 001.2 OF 005

1. (SBU) Summary: The issue of bauxite development in the Central Highlands has fueled strong passions among diverse sectors of the Vietnamese public, has most likely played a role in the arrest of some "dissidents" who emerged as leaders of the anti-mining crusade, and continues to generate lively national debate. Concerns about bauxite have primarily revolved around three key issues: economic viability, environmental impact, and the level and nature of Chinese involvement. Based on a recent trip to one of the mining sites and meetings with local officials, it appears that the GVN is maintaining its support for bauxite excavation and has ambitious plans for its processing and export. There is, however, a wide chasm between those plans and the realities on the ground. To date, only one project has actually moved into the construction phase, while another is pending permission to start construction. In contrast to blog reports that cite thousands of Chinese workers in the Central Highlands, the Ambassador observed little evidence of a significant Chinese work force during his visit, though the numbers of workers will likely increase as plans move forward. Despite the assurances of provincial leaders and project managers, there is still insufficient evidence that current plans to manufacture alumina will be either profitable or environmentally sound. In other words, it is all still up in the air. End summary.

A Poor Province's Prerogative...

2. (SBU) Vietnam is estimated to have 5.4 billion tons of bauxite ore -- one the world's largest reserves -- and 4.4 billion of those reserves are in Dak Nong, one of Vietnam's poorest provinces. Dak Nong People's Committee Vice Chairman Tran Phuong told the Ambassador on July 25th, that the key to Dak Nong's economic future lies in exploitation of its abundant bauxite reserves. Mr. Phuong noted that the central government had given a green light to Central Highland bauxite development, as issued in Politburo Decision Number 245 in April 2009, and that the Dak Nong People's Committee remains firm in its commitment to develop bauxite. He added that "If a province is blessed with mineral resources, it has every prerogative to take advantage of those mineral resources".

Three out of Four Projects Stalled

13. (SBU) The Dak Nong People's Committee originally envisioned four large bauxite projects that would export six million tons of alumina per year, all of which would be completed by 2015. Products of the processing factories would be transferred by a railway to the Ke Ga seaport in Binh Thuan province on the central coast, and the intermediate product, alumina, would be exported abroad. The reality on the ground is that neither the railroad nor the port projects have gone beyond the pre-feasibility stage (Ref A). Mr. Phuong also admitted that three of Dak Nong's four prospective bauxite projects are stalled.

14. (SBU) The projects' troubled history provides a glimpse into why they are stalled and what must be done to get them moving. According to local officials, the Aluminum Corporation of China Limited (Chalco), the publicly-listed subsidiary of the state-owned holding company Aluminum Corporation of China (Chinalco), first showed interest in 2006, when there was a proposal for excavating and transporting the raw ore bauxite by pipeline to the central coast where it would be processed and exported to China. Mr. Phuong noted, however, that negotiations on that particular project proposal are indefinitely on hold because such a venture would neither allow industrial development nor contribute any value-added for Dak Nong province. BHP Billiton had also expressed interest in another project but has subsequently pulled out.

HO CHI MIN 00000575 002.2 OF 005

15. (SBU) The third company to express an interest was Alcoa. Mr. Phuong said the firm was initially attracted to Dak Nong because of the soil structure's similarity to Australia, where Alcoa already has bauxite operations, and had planned to conduct a series of feasibility studies. But Alcoa's enthusiasm appears to have waned in the wake of Vietnam's bauxite brouhaha and it is now idling on the sidelines (reftels). (Note: Per prior conversations between the Ambassador and company representatives, Alcoa is also concerned about the tax rate at every stage of bauxite processing, since they will be subject to a higher export tax if alumina is considered a "raw" rather than a "refined" material. Mr. Phuong said Dak Nong province supports the classification of alumina as a "refined" material. End note)

15. (SBU) In Dak Nong, the only bauxite mine ready to start construction is the Nhan Co project, but little is actually going on there yet. While technically fully invested and operated by Vietnam Coal and Mineral Corporation (Vinacomin), the Chinese construction company Chalico, another subsidiary of Chinalco, was awarded the Engineering Procurement and Construction (EPC) contract to build Nhan Co's aluminum processing factory. On the wall of the makeshift project management meeting room hangs a large, impressive map of what the alumina processing complex will look like once construction is completed. It features a factory with an initial annual capacity of 650,000 tons, a coal-fired power plant, and a bauxite refinery. Nhan Co's Chief of Staff, Mr. Nguyen Van Hieu, said that the plant will be fully operational by 2011. Despite this assurance, it has been one year since the project began and thus far only the land has been flattened. Before any further action can take place, Mr. Hieu said, Nhan Co must get approval for the economic efficiency and environmental impact reports it submitted to the Ministry of Planning and Investment and the Ministry of Natural Resources and Environment.

¶6. (SBU) In contrast, the Tan Rai project, also wholly owned by Vinacomin in Lam Dong province, has already had both its economic and environmental reports approved. Like Nhan Co, when complete, the full Tan Rai complex would include excavation, processing and refining of bauxite ores into alumina (4.3 million tons of ores into 630,000 tons of alumina per year). Tan Rai's Vice Chairman, Mr. Tran Duong Le, said that construction (also by Chalieceo) began last November and will be completed in November 2010 when the contract ends. Vinacomin will oversee the bauxite mining itself, which it considers the "easy" part of the operation, while the more challenging parts, such as transferring ores by conveyor belt from mines located 4 kilometers away from processing facilities and running the refinery operations, will be offered to a Vietnamese firm by domestic tender.

Crunching the Numbers

¶7. (SBU) The economic viability of the GVN's plan to excavate and process bauxite is still an open question. Because exporting raw bauxite ores would not allow for much industrial development in the Central Highlands, the GVN is keen to manufacture aluminum--the "value-added" product made from alumina. But because aluminum processing requires a great deal of water and energy--two resources in short supply in the Central Highlands--the route forward is not clear. In Dak Nong province, for example, Mr. Phuong said that 1,400 megawatts of the province's 1,700 megawatt capacity are already dedicated to meeting local demand. While more projects are under construction, Mr. Phuong acknowledged that even after accounting for new power plants under construction there would, at best, be enough power available to produce no more than 200,000 tons of aluminum per year.

¶8. (SBU) Given these limitations on the resources required to produce finished aluminum, Tan Rai Vice Chairman Le said that both the Tan Rai and Nhan Co projects will only be able to produce alumina, not aluminum. Management at both projects noted that while their factories could eventually expand their

HO CHI MIN 00000575 003.2 OF 005

alumina capacity, neither project could independently add the capability to produce aluminum even if power and water were available since the technology for aluminum production does not yet exist in Vietnam. To bring in a suitable partner with the technology, an international open tender would be required. While Vinacomin maintains the lofty goal of producing 120-150 thousand tons of aluminum a year by 2014, it has not started concrete planning for an aluminum plant, it does not know where the power and water could come from, nor has it even decided on where an aluminum processing plant would be located.

¶9. (SBU) Another potential economic viability concern is the medium and long term trajectory for aluminum prices (and correspondingly alumina prices). Short-term prices have plummeted by more than 50 percent since last year when the project was making headlines. While part of the drop is due to the global economic downturn, analysts say China's overproduction of aluminum may continue to drive prices down for the long term. While China has already begun scaling back production, closing at least three large factories in the last year, there is still a global glut of aluminum, causing some analysts to remain bearish on the 10 year outlook for aluminum

prices. This bearish outlook stands in contrast to the bullish assumptions on which Vietnam's aluminum plans are built. According to one report, TVK assumes an average alumina price of \$326 per ton (which is significantly above current market prices) for the duration of the Tan Rai project. Even at that price, TVK estimates that although it will take 13 years to recover the investment, there will be positive economic benefits over the 50 year life of the project.

Are All Sludge Pits Created Equal?

¶10. (SBU) Critics of the GVN's bauxite plans point to the potential deleterious effects that bauxite excavation and alumina processing could have on the environment. Of particular concern is how "red sludge," the toxic byproduct of alumina processing, would be handled. Mr. Phuong and managers of both the projects assured the Ambassador that the plants will be well-equipped to handle the red sludge safely. They explained that disposal involves creating a pit, filling it with 20 centimeters of clay, and then layering it with a chemical fabric so that the red mud can't penetrate into the soil. Although it is not possible to reuse the red mud, it is possible to recycle the water back through the refining plant, which both projects intend to do. Mr. Hieu noted that in Australia, sludge pits have been planted with trees and one has even been converted into a Formula One racetrack.

¶11. (SBU) Mr. Phuong said he was initially skeptical about the environmental impact of bauxite development, but after visiting Australia and China's Kunming and Yunnan provinces and observing the processing, procedures and environmental safeguards in those countries, he was reassured that the damaging environmental effects of bauxite mining can be minimized when projects are carried out properly. He emphasized that the same expertise can and will be applied in Vietnam. Conditions in Australia, however, are significantly different than Vietnam. Australia disposes its red sludge in remote outback areas with little rainfall, thus mitigating the risk of waterway contamination. Vietnam, which has a comparatively wetter climate and is more densely populated, does not have the luxury of vast tracts of unused land. The proposed mining and process sites are also located in mountainous areas that serve as the water catchment for much of the central and southern regions of the country. If the toxic sludge were to seep into streams or the Dong Nai River, the primary water source for all of Southern Vietnam, the results could be catastrophic.

¶12. (SBU) Red sludge is not the only environmental risk. The Director of Cat Tien National Park, Mr. Tran Van Thanh, emphasized the serious consequences that building additional hydropower plants on the Dong Nai River system would inflict on the environment in and around Cat Tien. In addition to destroying wetland areas, the hydropower plants would adversely

HO CHI MIN 00000575 004.2 OF 005

affect the aquatic ecosystems, and severely disturb the endangered rhinoceros population. Mr. Thanh also said that the Vinacomin's environmental impact studies are "unreliable" because they are done by the government for the government, not by an independent source. Vinacomin management at Tan Rai project initially said that the reports are transparent and available to the public, but when the Ambassador asked Vinacomin where he could find a copy of the report, there was a lot of uncomfortable commotion amongst the group, who ultimately said that the Ministry of Natural Resources and the Environment should have reports available.

¶13. (SBU) Perhaps one of the most controversial aspects of the bauxite debate is the involvement of Chinese interests. Public concern over protecting strategic national resources, unfair bidding tenders for Chalieco, and worries about the influx of foreign labor are consistent themes in Vietnam's media and Internet blogs, with some blogs reporting thousands of Chinese workers moving into the region and the Chinese military setting up shop there to protect the workers. Mr. Phuong, however, assured the Ambassador that the only Chinese workers currently in Dak Nong province are "a handful" of Chalieco engineers studying the soil. Before that, Phuong said about 60 to 70 Chinese workers had been in Dak Nong to build a biofuel project, but all of them quickly departed after the project ended. He believes the whole issue of Chinese labor has been hyped up and blown out of proportion by "people with bad intentions."

¶14. (SBU) Indeed at Nhan Co, where construction is on hold, the Ambassador observed no obvious Chinese presence (beyond pandas painted on some of the bathroom tiles). Nhan Co management would not give any projections about the number of Chinese workers once the EPC took effect, however, stating only that it would "vary depending on the phase of construction." They emphasized that "anything that can be done by a Vietnamese will be" and that at full capacity there will be about 1,600 Vietnamese employees. Meanwhile at the Tan Rai project, there are currently "over 500" Chinese workers constructing the alumina refinery, but the management emphasized that construction of the facility and the transfer of technology were the only parts of the project subject to international tender. When the plant becomes operational, the entire workforce will be Vietnamese, except during the start up phase when some foreign experts (Chinese or others) will be employed as necessary.

Comment

¶15. (SBU) Although GVN and Central Highland provincial officials are pushing ahead with bauxite plans, there is a sizeable gap between their ambitious hopes and schedules and what is actually taking place on the ground. This is likely due to a combination of factors, including the GVN reassessing priorities in light of the unexpected popular backlash and the assorted economic and environmental complexities associated with such a massive undertaking. The Nhan Co project is currently little more than a pile of dirt and while Tan Rai is further along in the construction phase, it takes a lot of imagination to see how they will be able to excavate, refine and process 600,000 tons of bauxite into alumina within the next 16 months - particularly when a viable transport network for exporting the product does not exist.

¶16. (SBU) Internet blogs and cocktail chat around Ho Chi Minh City about a "Chinese invasion" certainly appear exaggerated, as there is currently little evidence of an overt Chinese presence in either province. That said, neither of the projects' managers would provide any hard numbers about how many Chinese workers they expect during the construction phase and beyond. Questions remain about the fairness of the tender that Chalieco

was ultimately awarded, particularly given China's spotty record on environmental protection and contract fulfillment in other tenders and the vital importance of safe red sludge containment.

Unfortunate mishaps with toxic waste notwithstanding, the development of power resources to support alumina (and eventually aluminum) processing is likely to represent a serious -- perhaps insurmountable -- obstacle that will also entail its own significant environmental cost. Based on the evidence available now, it is not yet clear that the economic benefits of bauxite development are worth the high potential risks. End Comment.

FAIRFAX